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31. July 2010

Online at <http://mpra.ub.uni-muenchen.de/24412/>
MPRA Paper No. 24412, posted 16. August 2010 / 14:05

COMMERCIAL MICROFINANCE AND SOCIAL RESPONSIBILITY: A CRITIQUE

Tara S. Nair

Abstract

Working within the logic of maximising investor returns, the strategic focus of Indian microfinance seems to have shifted from poor borrowers to profits. Commercial transformation of MFIs has been accompanied by changes in the structure of ownership, control and management of MFIs and nature of their stakeholder commitment. This paper explores the apparent dilemma of commercial microfinance with respect to serving the poor and chasing profits. It discusses some of the critical inadequacies within the approaches advocated and practiced currently by the commercial microfinance entities to restore the sector's focus on poor borrowers. The social responsibility of microfinance has been examined with illustrations from the contemporary microfinance scenario in India and using conceptual insights derived from the existing literature on business social responsibility.

Commercial Microfinance and Social Responsibility: A Critique

Tara S. Nair

Having started off as a community based solution to the problem of access to financial services for the poor microfinance in India has travelled a long way in just about two decades since the early 1990. Self help groups (SHG) organized around an informal set of norms of mutuality and trust was the earliest institutional form of microfinance in the country. Ever since the institutionalisation of the SHGs in the early 1990s, there have been some experiments around the methodology of group lending. The non governmental organisations or NGOs who were seen as facilitators in the SHG model have adapted the Grameen methodology of group lending to directly engage in delivery of micro loans; they are legally prohibited in India from collecting public deposits. Some tried to work through cooperatives and federations of SHGs.

Transformation Process

Banking through SHG initiative has spread far and wide in the country, under the patronage of the National Bank for Agriculture and Rural Development (NABARD) and many state governments¹, while many of the pioneer NGO microfinance programmes have developed into mammoth financial intermediaries. Constrained by the inability to augment the capital base through member savings and the difficulties in mobilising timely and adequate funds from the formal banking sector, many NGO-MFIs started transforming themselves into regulated for profit entities since the late 1990s. Not only did transformation give them legal legitimacy, they could also resolve the issue of capitalization in a more efficient fashion with the help of private equity providers. These companies started expanding their businesses aggressively, which resulted in high rates of growth in their client outreach and portfolio size.

It must be mentioned here that, internationally, microfinance became a great site of interest for the global financial capital in the 1990s.

“From the 1990s, entities such as the International Finance Corporation and German agency KfW began to extend finance to MFIs on a ‘near-commercial’ basis. Supplemented by private foundations and ‘social’ investors, such funding encouraged MFIs to operate with more commerciality and professionalism. International commercial banks made experimental investments during this period, usually through their charitable foundations. Financialisation of pure-lending microcredit is now evident in a range of financial technologies familiar from mainstream capital markets: the creation of microfinance investment vehicles (MIVs) and the use of securitisation, collateralised debt obligations and structured finance, among other risk-management tools. Examples abound of credit wraps or guarantees, loan syndications and hedging mechanisms. Specialised services, including ratings agencies, support the industry. Substantial initial public offerings are beginning to occur, pointing the way to ‘exit’ opportunities for private equity investors and increasing the allure of for-profit investment. (Conroy, 2010: 2)

Currently, the microfinance sector in India stands clearly divided into three segments – (i) slow growing, informal and community based (SHG bank linkage programme), (ii) moderately growing and not for profit (NGO MFIs and cooperatives), and (iii) fast growing, regulated and commercial (non banking finance companies or NBFCs). By 2008-09, the number of bank linked SHGs stood at around 45 lakh (or about 6 crore households, if one assumes an average membership of about 12 households per SHG) and the cumulative bank loans availed by SHGs at Rs. 22000 crore (RBI, 2009). Though the country is yet to have an authentic, all-inclusive and single point database on the number and spread of microfinance intermediaries – known popularly as microfinance institutions or MFIs - the available information suggests that both client and credit outreach figures of such organisations are very impressive. One estimate by CRISIL(October 2009) shows that the top 50 MFIs together claim an outreach of more than 1.2 crore clients and

portfolio outstanding worth Rs. 7650 crore during September 2008. The top 10 MFIs (7 of which are NBFCs) account for 77 per cent of the portfolio and 75 per cent of the clients. Further, about 62 per cent of loan outstanding of the 50 MFIs in 2008 was accounted for by the top five NBFCs², who also claim 57 per cent of the total client outreach. CRISIL data shows that during 2007-08 Spandana Sphoorty Financial Ltd, the second largest MFI in the country increased its net profit by 1700 per cent, while SKS, the leader in the market, registered a rise in net profit by 700 per cent.

Working within the logic of maximising profit and investor returns, in its current phase, the strategic focus of microfinance seems to have shifted from poor borrowers to profits. Commercial transformation of MFIs has been accompanied by changes in the structure of ownership, control and management of MFIs and the nature of their stakeholder commitment. What are the implications of this rather dramatic change for the sector's assumed ability to be responsible for and responsive to the communities that they serve? As the conflict of interests and claims among clients, management and investors become rampant, whose interests will assume primacy and determine MFI strategies - the prescriptions and priorities of the financial market players or the needs, constraints and priorities of the ultimate users of microfinance services? What are the available safeguards that can save the sector from moving farther away from serving its social change agenda?

The purpose of this paper is to explore the apparent dilemma of commercial microfinance with respect serving the poor and chasing profits. It discusses some of the critical inadequacies within the approaches advocated and practiced currently by the commercial microfinance entities to restore the sector's focus on poor borrowers. The paper also strives to unravel the social responsibility of microfinance with the help of illustrations from the contemporary microfinance scenario in India and using conceptual insights derived from the existing literature on business social responsibility.

1. Social Responsibility of MFIs

It needs to be recognized that commercialisation of microfinance has led to an increased interest among investors and practitioners in reasserting the social developmental role of microfinance. Many efforts are on to develop tools and methods to assess the social performance of MFIs. Paradoxically, most such efforts are driven by investor interests to establish that investments have gone in to poverty focused and sustainable microfinance ventures rather than ascertaining how the services have impacted the livelihoods of the households they reached out to. The latter would require costly and cumbersome studies with elaborate research plans. The preference, hence, is for quick surveys with a minimum number of easily traceable indicators that can prove the programme's outreach to the poor.

Social Performance Reports

The Social Performance Management (SPM) framework developed by the Imp-Act Consortium checks and validates the closeness of fit between organizational mission, strategies and development outcomes. The Consortium defined SPM as the process of translating mission into practice, including setting social objectives, tracking social performance and using information to improve practice. The efforts of the Consortium are aimed at developing tools and methods that can be used by MFIs to pursue their social mission, if they have one, as part of a deliberate and managed strategy. It is also believed that MFIs will be more successful in achieving their social goals if they can measure, monitor, and manage their progress towards them, a practice they follow with respect to their financial goals. More over, like private sector firms, MFIs can benefit from strategies that allow them to protect and enhance their reputation; attract, motivate, and retain talent; manage and mitigate risk; improve operational and cost efficiency; ensure license to operate; develop new business opportunities; and build stable and prosperous operating environments (Seep Network, 2008).

Progress out of Poverty Index (PPI) is a popular social performance tool developed by the Grameen Foundation. It uses 10 locally relevant indicators such as family size, the number of children attending school, the type of housing etc with the help of staff

members through client interviews. Each indicator is assigned a score that reflects client response, and all ten indicators receive a total score. The field staff of the MFI matches the total points from the clients' PPI to a poverty level estimate which help in ranking individual clients.³ PPI, it is claimed, will help the MFIs to (1) better define and adhere to their mission; (2) increase their competitive edge, profitability, and ability to retain clients by responding more quickly and effectively to changes in their communities and by showing documented results; and (3) to provide timely and accurate information to socially responsible investors who may want to provide financial resources to their programs.

Client Protection Principles

The formulation of Client Protection Principles (CPP) marks another proactive effort on the part of the industry, especially the investor community, “to ensure that providers take steps to protect low-income clients from potentially harmful financial products and ensure that they are treated fairly”.⁴

The six core principles to which providers are expected to adhere to are:

- Extend credit if borrowers have the ability to repay; avoid over-indebtedness.
- Pricing and terms and conditions of financial products will be transparent and adequately disclosed
- Debt collection practices will not be abusive or coercive
- High ethical standards will be complied with by the staff while interacting with clients
- Timely and responsive mechanisms will be in place for problem resolution and dealing with complaints
- Privacy of individual client data will be respected

The signatories to the principles have proclaimed their commitment to a process to ‘translate the principles into standards, policies, and practices appropriate for different types of microfinance clients, products, providers and country contexts’.

CPP, however, appear more ‘pro-client’ compared to the ‘Fair Practice code’ showcased by some MFIs. The latter is the articulation of the conditionalities that govern loan contracts to guard MFI interests. The investors who sign the CPP commit themselves to a process ‘to translate them into standards, policies and practices appropriate for different types of microfinance clients, products, providers, and country contexts’. The signatories undertake to consider the principle while making their investment decisions and extend support only to those who stand by them.

Self Regulation

Self regulation can be seen as a way to influence behaviour of firms and organizations by institutionalizing a set of desired practices that will serve the collective interests of all involved. Most recently, two institutions came up in India– Alpha Micro Finance Consultants Private Limited and Micro Finance Institutions Network (MFIN) – championed by the major NBFC-MFIs as part of their ongoing efforts to promote self regulation among microfinance institutions, mainly, to avoid problems associated with over lending and delinquency. Lending to the same clients by multiple agencies has emerged as a worrisome tendency in India, especially, in states that have witnessed higher growth in the microfinance activity. It has also been observed that the regions that experienced high penetration levels of microfinance also have presented pockets (for instance, Kolar in Karnataka and Lucknow-Kanpur belt in Uttar Pradesh) with serious repayment problems (Rozas and Sinha, 2010). In this context, Alpha is designed as an agency to help MFIs with credit bureau services, whereas MFIN has come up with a ‘code of conduct’ that urge MFIs to restrict themselves from over lending, which, it is feared, would lead to instability of current growth (Mahajan and Vasudevan, 2010).

Social responsibility of microfinance as interpreted within the SPM or client protection or self regulation frameworks seems narrow in its scope. These frameworks are intrinsically incapable of addressing some the critical aspects questions related to power and dominance, which largely decides the ultimate distribution of benefits of any

development oriented intervention. The norms and processes through which the organisations arrive at their mission and strategies are taken for granted or ignored in all these. Questions like structure of shareholding pattern and norms of profit sharing never figure as any important in social reports or self regulation debates. In other words, they do not provide any guidelines to ensure that the organisational decisions are not influenced by the ‘morality of the mighty’.

2. Clients of Microfinance

Social responsibility is intrinsically rooted in an entity’s commitment to the principle of egalitarianism, an ideological commitment that co-exists with individualism (Bobo 1991) Applied to the realm of business, social responsibility means business responsiveness to societal issues and a motivation to go beyond economic, technical and legal obligations towards ensuring greater social wellbeing. In other words, it is an obligation to fulfil the societal demand in such a manner as ‘to safeguard the interests of those who deal with it either as employees or consumers *even if the proprietary rights of its owners are thereby curtailed*’ (Dodd 1932: 1162 emphasis added).

Who should businesses be responsible to while addressing the interests and claims of various groups? Many theorists have made significant contribution towards unpacking this dilemma through the concepts of stakeholding and stakeholder.⁵ Edward Freeman⁶ defined stakeholder rather broadly as any group or individual who can affect or is affected by the achievement of the organisation’s objectives. While tracing the history of the term, Freeman argues that the concept was originally defined as ‘those groups without whose support the organisation would cease to exist’. Such groups could include shareholders, consumers, users, neighbours, governments, suppliers, creditors, and distributors.⁷ Donaldson and Dunfee (2000) extended a more pragmatic explanation: a stakeholder is the one who has an ‘obligation-generating stake’ in an organization’s decision that results from the possibility of getting affected by that decision or from a potential risk. The concepts of stake (including non-financial stake) and risk help one

focus sharply on those entities with legitimate claims, irrespective of their power to influence the business firm.

A close look at the current phase of expansion of commercial microfinance urges one to examine the salience of different stakeholders within the sector. Which stakeholder(s) has all the attributes that guarantee the attention of the management of mF organisations – the clients, the promoters or the investors? How do organisations address the complexities involved in ethically incorporating multiple stakeholder concerns and priorities in routine management? Questions like these assume critical significance in any assessment of the capability of Indian microfinance to be socially responsive and responsible.

An interesting attempt to answer these questions came from Mitchell, Agle and Wood (1997), who offered a framework to analyse stakeholder salience and identification on the basis of three attributes: 1) power (to influence the firm decisions); 2) legitimacy (of relationship with the firm), and urgency (of claims on the firm).⁸ By examining the various combinations of these attributes, they classified stakeholders into three broad classes (latent, expectant, and definitive) and seven types (three possessing only one attribute, three possessing two attributes, and one possessing all three attributes).

Table 1: Stakeholder Types by Attributes

Class	Type	Attribute	Ability to demand attention from management
Latent Stakeholders	Dormant	Power	No or very little interaction with management
	Discretionary	Legitimacy	No incentive to interact and demand attention
	Demanding	Urgency	Irksome, but do not warrant attention of management
Expectant Stakeholders	Dominant	Power and Legitimacy	Expect and receive attention, but not the full attention

	Dependent	Urgency and Legitimacy	Support of other stakeholders or guidance by internal management's value needed
	Dangerous	Urgency and Power	Potential risks to relationship with management and other stakeholders
Definitive Stakeholders	Definitive	Power, Legitimacy and Urgency	Receive clear and immediate attention to claims

Source: Adapted from Mitchell, Agle and Wood (1997).

The definitive stakeholders are the 'mighty' ones in this scheme as they have power, legitimacy and urgency and, hence, their interests become managerial priorities. Within the class of expectant stakeholders both dominant and dangerous stakeholders too can influence decision making. However, the former lacks urgency and the latter, legitimacy. Dependent stakeholders are peculiar in that they have urgent and legitimate claims, but no power. In the transition from expectant to definitive stakeholder, this is the type that tends to lose out unless deliberate efforts are made to 'empower' them. The categories of dormant and discretionary stakeholders receive the least attention as per the above scheme. They are neither counted nor consulted while managerial decisions are made. In an overtly commercial microfinance industry the poor, at best, are dependent stakeholders who lack the power to stake their urgent and legitimate claims on the resources of the MFI and build their capabilities. Management and leadership may recognise their needs as urgent and legitimate, but conceding them the power to steer strategic decisions (with respect to targeting, products, lending policies, sharing of profits) is near to impossible, given the singularly profit-centred economic calculus. The graver concern is whether in a scenario where new forms of domination emerge (like profit oriented investors, professionals with superior skills and sophistication) clients' position would erode further to make them latent or even non-salient stakeholders.

In Whose Interest?

The uncomfortable prospect of using clients as sheer instruments to build promoter profits is visible in several instances in the recent history of microfinance growth in India.

Many of the current leading for-profit mF entities – SKS, Spandana Spahoorty, Share Microfin and Asmitha Microfin - started off their commercial transformation with predominant “community ownership” which took the same form of creating Mutual Benefit Trusts (MBT) of borrower groups, pooling their resources and making them invest in the new company. It may be noted that an MBT is a form of trust where the entity is created not for the larger public good, but to control the benefits accruing to individuals, members or families. Paradoxically, the resources were largely donated by the MFIs themselves through their non-profit parent entities. Thus the MBTs subscribed to the equity shares of the new companies with cash grants made available to them by the MFIs. By doing this the new companies could also conveniently circumvent the legal hassles related to non-profit societies or trusts making investments in profit-making companies at the time of incorporation.

The later developments, however, indicate the promoters’ hidden intention to progressively dilute the community stake by bringing in external investors. This was done systematically by all the top ranking mF companies. For instance, in the case of Asmitha Microfin (established in 2002 and headquartered in Hyderabad), which transformed in to a company with more than 97 per cent of the shares ‘owned’ by the clients, the promoters and their relatives acquired majority stake in the company through a buyout in 2006. From 2006 onwards the company also started distributing dividend. In 2008 the managing director of Asmitha was offered sweat equity worth USD 2.5 million by one of the equity investors.

The tendency towards cross holding of shares and interlocking directorship is another disturbing feature of the current phase of mF commercialisation. After analysing the recent history of shareholding pattern and financial transactions of Asmitha Microfin and Share Microfin - two companies promoted by the same family – Sriram in a recent paper (2010) concluded that there is clear evidence of ‘above the line skimming of profits’ in both the companies. This has been achieved through systematic increase in the share holding of the chief promoters and drastic reduction in equity held by community

collectives as also by overvaluing the promoter contribution in terms of salaries and sweat equity shares.

The contradiction that underlies a ‘profit maximising poverty alleviation strategy’ has become acute when SKS, the largest mF company in India, announced its intention to go public in late 2009. The IPO is likely to materialise in July 2010. This is the first initial public offer (IPO) in the Indian microfinance sector and the second in the world after the 2007 IPO of the Mexican MFI, Banco Compartamos. The object of the public issue reported as raising about USD 225 million from the market, partly through new issues and partly through sale of existing stakes by private investors and employees. Post the issue, about 23.3 per cent of the equity shares will go to the public (DRHP, 2010). It is reported that despite having a very healthy capital adequacy ratio of around 24 per cent (as against the RBI stipulation of 12 per cent), SKS chose to go public to help investors exit and employees encash their equity options⁹. That some members of the top management team have already sold their stake to Tree Line Asia Master Fund, a Singapore based hedge fund, is also seen as raising questions about the commitment of the company to serving its poor borrowers¹⁰ and about the company’s claim that IPO is its way to raise money to grow the business to reach out to 50 lakh clients¹¹. How much of gains from the IPO gets back to building the portfolio of the company is yet not certain.

All the MFIs we discussed above are hailed as commercial successes within the ever burgeoning investor community as they help increase shareholder value in the least possible time. No one questions the misuse of the powerless client communities as just a stepping stone to the world of profits. Also neglected is another question - a more pertinent one - as to whether there has been an increase in the social and economic value that a poor household expects to gain by participating in the microfinance programme and by investing its already overstretched and undervalued resources like time, effort and trust.

A For-Profit Model with Client Ownership

There are a few instances, however, where organisations have tried out innovative frameworks to assert the primacy of mF clients. Sarvodaya Nano Finance Ltd (SNFL) is a case in point. SNFL was established in the late 1990s by the Association for Sarva Seva Farms (ASSEFA) a community-centric Gandhian NGO founded in 1979. The operational principles of ASSEFA are guided by the belief that “The assets generated out of the grants received by ASSEFA were to be owned d by the communities. Even benefits that were targeted at individuals were given as a soft loan to be contributed back to the community organisation, so that those resources could in turn be used for a larger good of the other members of the community.Similarly it was also envisaged that not only the assets would be owned by the communities, but institutions set up for their benefit would also be ultimately owned by them” (Pathak and Sriram, 2004: 1).

Though ASSEFA was involved in SHG promotion in Tamil Nadu since the late 1980s, even by the mid-1990s a large proportion – close to 40 per cent - of their groups could not access adequate and timely external credit to enhance livelihood activities. Pooling SHGs own funds for circulation was difficult as they lay scattered across different areas of the state. Equally difficult was establishing sustained bank linkage for the groups. The other feasible option left was set up a financial institution which could leverage external funds, but was owned by the community. It was first set up as fully owned company within the BASIX Group based in Hyderabad. After a couple of years of dormancy, ASSEFA chose to change the ownership structure with block level Sarvodaya MBTs (of which SHGs are members) as share holders. The MBTs are permitted by their bye-laws to raise external resources for meeting the credit needs of the SHGs and also to invest in shares of other corporate entities.

Each SHG paid a one time non-refundable contribution of Rs.1000 and contributed to the MBT an amount equivalent to the capital development fund and other revolving funds given by the organization (Pathak and Sriram, 2004). The structure thus emerged had a clearly defined direction of linkage between the community (represented by individuals, SHGs, SHG Federations and MBTs at different levels) and the company. It may be seen

that even in the case of SNFL, the community's stake was not real as a significant part of it came from grant funds given by the parent NGO. But, as Pathak and Sriram (2004) observe, the SHGs did receive the funds, used them for internal lending, and thus developed a sense of ownership over it.

The SNFL example vividly demonstrates the possibility of designing for-profit-microfinance models that can strategically position clients as the primary and definitive stakeholders and promote maximization of client/ community value (defined in terms of the accumulated social, economic and political benefits that accrues to individual members and communities) as the long term objective as against profit maximisation of individual shareholders. Compared to the profit driven companies with substantial private equity participation, SNFL's performance has been totally lack lustre. As against 1700 per cent and 700 per cent growth rate in net profit respectively of Spandana Sphoorty Financial Ltd and SKS, SNFL registered a very modest growth rate of 19 per cent during 2007-08 (CRISIL, 2009). But as we discussed earlier, SNFL has one of the most client-salient ownership structures among the mF companies.

Clearly, assessing the social responsibility of microfinance institutions in the current scenario is a complex process. It definitely goes beyond counting the number of poor clients on the rolls of an MFI, and includes a closer scrutiny of business decisions and manifest interests of promoters and shareholders. It also involves systematic and painstaking evaluation of how the poor borrowers deal with and gain from their association with microfinance.

A fruitful way to ascertain the social responsibility of MFIs seems to be to examine the nature of its underlying social contract. Social contracts are the informal, implicit, but critical agreements that bind social and economic entities into moral communities and provide them with a moral framework for engaging in economic activities (Donaldson and Dunfee, 1994 and 2000). It is a site where the diverse interests of multiple stakeholders are negotiated (which reflect their relative moral universes) and evaluated against certain ethical values. In the case of microfinance, a sector, which, by

its very definition is focused on improving the living conditions of the poor, a social contract is expected to assert their salience by incorporating terms that grant them power and legitimacy while addressing their claims.

A typical macro social contract is a combination of many micro social contracts involving different stakeholder communities. As Sacconi (2004) argues apart from ensuring avoidance of force, fraud and manipulation, a social contract allows the different parties involved to negotiate on the basis of the capacity of each to contribute and assessment of the utility of each agreement/ non agreement. With the help of a social contract each stakeholder can make sure that it derives at least the reimbursement of the cost of specific investment it makes towards surplus generation. For the MFIs the costs would involve the actual costs of intermediation, while for the clients the costs can mean widely varying things like the opportunity cost of engaging with the MFI, the social cost of snapping the long standing relationship with the traditional credit sources as also of taking time out from the socially expected roles (in the case of women, especially) to attend group meetings and unremunerated responsibilities.

Conclusions

Microfinance, no doubt, is a distinct institutional arrangement that blends the social and the economic, where resources are applied in clear pursuit of the simultaneous creation of both economic and social values. However, as we argued in this paper, there is an apprehension that commercialization - patronized largely by the traditional finance capital that seek to maximize financial returns and facilitated by “financial technologies familiar from the mainstream capital markets” (Conroy, 2010) - would eventually undermine the social value creation role of MFIs. This apprehension is justifiably founded on the observed trends in the current phase of development of Indian microfinance sector which include the rise of a class of profit-seeking mF promoters, the progressive marginalization of the poor microfinance clients and the increasing influence of investor interests in the governance and management of transformed MFIs. Added to this is the fear that unbridled growth and over-lending may land the industry in a

delinquency crisis in the near future. Though not reported by the mainstream media or publicized by the lending organisations, MFIs in some pockets have experienced client indifference and non-cooperation and resultant repayment crisis in recent times. Not all of them lack in managerial expertise or professional support. But they surely lack the vision that clients form the primary constituency of microfinance.

While concerted efforts are needed to put the 'social' back in the social enterprise called microfinance, we need to go beyond techniques and tools that can ensure patronage of investors and fund providers, but do not always signal the real development outcomes. In order for microfinance institutions and programmes to achieve those outcomes they need to clarify and endorse their responsibility and responsiveness towards the communities whose future they are trying shape. Meaningful social contracts formed through inclusive processes and based on trust and reciprocity as also consistent efforts at tracking client level impact are central to being socially responsible.

NOTES

[This paper draws on an earlier work the author did jointly with Jan Postmus and Rachayeeta Pradhan. Their intellectual support is gratefully acknowledged. The very useful comments provided by Navin Anand, Graham Wright, Krishna Kumar Singh, Bonny Zare, Sushanta Kumar Sharma and Yeswanth D on an earlier draft helped in refining the arguments. The usual disclaimers apply].

¹ Since 1995 the Andhra Pradesh government has been playing a central role in promoting SHGs and linking them with banks as part of poverty alleviation programme. As on March 2006, for every 1000 households in the state 279 were part of SHGs. (Fouillet and Augsburg, 2007). Launched formally in 1999, the *Kudumbasree* programme, the poverty eradication mission of Kerala government, uses the methodology of women's neighbourhood groups or NHGs. By 2008-09, 500 in every 1000 households were reported as participants of the programme. See, *Annual Administration Report 2008-09* of Kudumbasree. Similarly, *Mission Shakti* the self help movement in the eastern state of Orissa (started in 2001) claims participation of close to 4 million women. See <http://www.wcdorissa.gov.in/>. This accounts for about 30 per cent of the adult women population (above 15 years of age) in the state.

² These comprise SKS Microfinance Ltd, Spandana Sphoorty Financial Ltd. Share Microfin Ltd, Asmitha Microfin Ltd and Shri Kshetra Dharmasthala Rural Development Project. The first four are NBFCs and the fifth is a trust.

³ See, <http://www.progressoutofpoverty.org/understanding-the-progress-out-poverty-index> for details.

⁴ See, <http://www.cgap.org/p/site/c/template.rc/1.26.3701> or www.centreforfinancialinclusion.org.

⁵ Having originated in the mid 1980s with the publication of Edward Freeman's work, *The Strategic Management: A Stakeholder Approach*, stakeholder theory has evolved into an integral part of strategic management. For an interesting discussion on the evolution of stakeholder theories, see, Freeman and McVea, http://papers.ssrn.com/paper.taf?abstract_id=263511.

⁶ Quoted in Sternberg, 1999: p.46.

⁷ Some of the broad definitions of stakeholders are provided by Alkhafaji ("groups to whom the corporation is responsible") and Thompson Wartick and Smith (groups "in relationship with an organization"). See, Mitchell, Agle and Wood (1997) for details.

⁸ Mitchell, Agle and Wood (1997) have presented an exhaustive list stakeholder classes while trying to model stakeholder identification and salience. These are owners and non owners of the firm; owners of capital or owners of less tangible assets; actors or those acted upon; those existing in a voluntary or an involuntary relationship with the firm; rights-holders, contractors, or moral claimants; resource providers to or dependents of the firm; risk-takers or influencers; and legal principals to whom agent-managers bear a fiduciary duty.

⁹ The Economic Times, 'SKS Microfinance may hit Street with Rs 1,000-cr IPO, 15 March 2010'. Available at <http://economictimes.indiatimes.com/markets/ipos/SKS-Microfinance-may-hit-Street-with-Rs-1000-cr-IPO-/articleshow/5684162.cms>.

¹⁰ See, Kavaljit Singh's letter to the Economic and Political Weekly, "Microfinance: Profiting from the Poor", 45 (18), May 1, 2010. pp. 4-5.

¹¹ Some reports quoting personal sources say that the funds generated from the sale of MBT stake will form a major infusion of capital for the MBTs and be directed to the SKS Society, the parent NGO. See Kumar and Rozas, 2010.

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